

EXHIBIT C



**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans

**2004
ANNUAL
ACCOUNTING
STATEMENT**

Apr-29-2005 09:47am From-BCBSA

13122976221

T-549 P.002/006 F-484

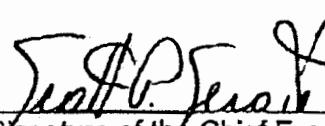
CERTIFICATION OF ANNUAL ACCOUNTING STATEMENT

This is to certify that I have reviewed this accounting statement and to the best of my knowledge and belief:*

1. The statement was prepared in conformity with guidelines issued by the Office of Personnel Management and fairly presents the financial results of contract year 2004 in conformity with those guidelines.
2. The costs included in the statement are actual, allowable, allocable and reasonable in accordance with the terms of the contract and the cost principles of the Federal Employees Health Benefits Acquisition Regulation and the Federal Acquisition Regulation.
3. Income, rebates, allowances, refunds, and other credits made or owed in accordance with the terms of the contract and applicable cost principles have been included in the statement.
4. The letter of credit account was managed in accordance with OPM guidelines.
5. The statement includes any adjustments for audit findings that were agreed to be settled through adjustments to the Special Reserve.

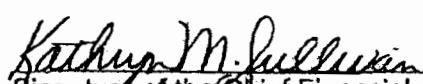
CARRIER NAME: BLUE CROSS BLUE SHIELD SERVICE BENEFIT PLAN

Scott P. Serota
Chief Executive Officer


Signature of the Chief Executive Officer

4/29/05
Date Signed

Kathryn M. Sullivan
Sr. Vice President and
Chief Financial Officer


Signature of the Chief Financial
Officer

4/29/05
Date Signed

* This certification is subject to the following qualifications:

Apr-29-2005 08:47am From-BCBSA

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T-549 P.002/006 F-484

1. **Contract Provisions:** The annual accounting statement is submitted in accordance with the terms of Contract No. CS 1039, as amended and effective for 2004.
2. **Supporting Plan Certifications:** This annual accounting statement reflects the amounts charged to the contract by the FEP Director's Office of the Blue Cross and Blue Shield Association, Blue Cross and Blue Shield Plans that are parties to this contract ("Participating Plans"), and the Pharmacy Benefit Managers ("PBMs"). The FEP Director's Office has obtained certifications from the Participating Plans and the PBMs with respect to the amounts that they have charged to the contract. Certain exception items brought to the FEP Director's Office attention from Participating Plans or PBMs certifications and which the FEP Director's Office has determined merit disclosure with this certification are included in this qualification section of the Certificate submitted to OPM. Other exceptions are included in each Plan's certification, which are kept on file (and available for review) at the FEP Director's Office.
3. This Certificate does not apply to the following costs, income, rebates, allowances, refunds or other credits:
 - a. **OPM Audit Findings:** Amounts that have been questioned by OPM in Plan Specific and Global draft or final OPM audit reports or Contracting Officer's Final Decisions for years prior to 2004, amounts in years following those covered by the audit reports that were not resolved as of December 31, 2004, and amounts questioned by OPM in audits of Plans for which the FEP Director's Office has requested and received waivers.
 - b. **Independent Public Accountant's Reports:** Amounts may be affected by issues as a result of the Plans' Independent Public Accountant's performance of procedures in accordance with the OPM Carrier Audit Guide and BCBS Service Benefit Plan Workplan that were not resolved as of December 31, 2004.
 - c. **Control and Performance Reviews:** Amounts that have been questioned in Control and Performance Reviews (CPR) of Participating Plans, Pharmacy Benefit Managers, and certain vendors that were not resolved as of December 31, 2004.
 - d. **Letter of Credit Account:** Amounts that may be affected by issues concerning Plans' and the BCBS Association's compliance with OPM guidelines relating to management of the Letter of Credit Account. This may result in further adjustments to the Program.

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e. **Sales Leaseback Transactions:** The Plans listed below have completed transactions that involved the sale and leaseback of buildings. The Plans' accounting policy for FEP is to amortize deferred gains on the sale portion of the transactions as reductions of rent expense. Following complete disposition of the property, the remaining unamortized gain, if any, is credited to the FEHBP.

Blue Cross and Blue Shield of Arizona
 Blue Cross of California
 CareFirst Blue Cross and Blue Shield
 Blue Cross and Blue Shield of Massachusetts
 Blue Cross and Blue Shield of New Hampshire
 Blue Cross and Blue Shield of New Jersey
 Independence Blue Cross
 Blue Cross and Blue Shield of Wisconsin

f. **Allocation of Indirect Costs:** Local Plans and the Blue Cross and Blue Shield Association use various statistics to allocate indirect costs. Many Plans use annual statistics; the Association, as well as some Plans, use monthly statistics. OPM has proposed revisions to the Federal Employees Health Benefits Acquisition Regulation (FEHBAR) to allow both annual and monthly statistics to allocate indirect costs. We understand that these proposed revisions are pending review by the Office of Management and Budget (OMB).

g. **Account Reconciliations:** Each year, on a routine basis the local Plans and the Blue Cross and Blue Shield Association undergo analyses and reconciliations of various general ledger accounts. Sometimes through this review and reconciliation process, variances may be identified that require more in depth analyses. These analyses cannot always be completed before the Association is required to submit this Annual Accounting Statement. Once these analyses are completed, any necessary adjustments will be made to the appropriate accounts.

h. **Provider Litigation:** The Association is currently a defendant in Thomas v. BCBSA et al., in which two physicians and a state medical society filed a class action against the Association and 38 Plans, claiming among other things conspiracy and fraud in violation of the Racketeer Influenced and Corrupt Organizations Act. The Association is also a defendant in Solomon v. BCBSA et al., in which providers who are not medical doctors raise claims similar to those in Thomas. There are many uncertainties regarding the outcome of these two litigation matters and as such, it is not possible to determine with reasonable certainty the likelihood that the Association will incur any liability from them. Based on management's current understanding of the facts and the current status of these matters, management cannot form an opinion

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as to whether the ultimate outcome of each (or both) is likely or not likely to have a material impact on the financial condition of the Program. In the event of an adverse outcome, there may be a material impact on the financial condition of the Program.

- i. **CareFirst Blue Cross and Blue Shield Group Hospitalization and Medical Services, Inc.:** SAAC (Substantial, Available and Affordable Coverage): In May 2002, the Plan requested that OPM consider the costs incurred as a result of CareFirst's participation in the Maryland SAAC program as benefit costs entitled to reimbursement. Although OPM did respond that such costs were administrative costs subject to the administrative expense cap, OPM has recently advised the FEP Director's Office that they would reconsider their position and consider FEP's position that the costs are allowable managed care costs. If OPM accepts this position, costs will increase accordingly for the FEP program – for the calendar years 2001 to 2003.
- j. **Blue Cross and Blue Shield of Florida:** To ensure compliance with the applicable statutory, regulatory, and contractual requirements, the Plan periodically reviews its performance under the FEP. The Plan is currently reviewing its performance related to the following areas: (a) the use of monthly rather than annual statistics to allocate indirect costs to final cost objectives; (b) controls regarding the Plan's purchasing process; (c) records retention; (d) relocation expenses; and (e) the processing of Request Refund Receivable notifications to providers. If, as a result of these efforts, the Plan determines that additional adjustments to relevant processes, reports, and data are required, it will make those adjustments in conformity with the applicable statutory, regulatory, and contractual requirements. Accordingly, the representations in the Plan's certification do not extend to these issues.
- k. **Blue Cross and Blue Shield of Minnesota:** The Plan has elected to change, effective with the 2004 contract year, the method of accounting for its nonqualified Supplemental Retirement Plan, from a pay-as-you-go method to the method and measurement similar to its qualified pension plans, as permitted by 48 CFR 9904.412.50(c)(3) and in accordance with 48 CFR 9904.412.50(d)(2). As a result of the change, unamortized lump sum payments, recorded under the pay-as-you-go method, were fully amortized in 2004.
- l. **Highmark, Inc.:** Highmark Blue Shield has identified a deficiency in its processing of dental claims relative to potential coordination of benefit (COB) processes. The Plan is researching this matter to determine the corrective action to be taken.

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Included within the Annual 2004 Cost Submission Report are Agency Service Fees in the amount of \$895,696. Highmark Blue Shield has not audited these charges and, therefore, cannot independently certify to the accuracy of these charges. Highmark Blue Shield relies upon the certifications of the Blue Cross Plans that incur the costs reflected in the Agency Service Fees. Any differences are corrected with a Prior Period Adjustment in the following year.

m. Blue Cross and Blue Shield of Illinois

Blue Cross and Blue Shield of Texas

Blue Cross and Blue Shield of New Mexico: The Plans exited the Medicare lines of business in 1998 and 1999. The Plans are in discussions with the Centers for Medicare and Medicaid Services (CMS) based on final OIG pension audits/reviews to determine the credit payable to Medicare for any deemed excess pension assets when the Plans terminated the Medicare pension segment. The ultimate resolution of this issue could have an impact on the apportionment of underlying pension actuarial values and costs among the identified Medicare segments and other/non-segments. At this point in time, the overall CAS valuations and costs for the pension plans spanning back into the last settled FEP audit periods and forward into the current filing period do not appear to need adjustment. The Plans will make any appropriate FEP prior period adjustments related to FEP pensions, if necessary, when all outstanding audits are finalized.

n. Premera Blue Cross: Gains and Losses on Disposition of Property:

The Plan does not identify gains and losses on disposition of fixed assets and allocate them to FEP, when these amounts are immaterial, since it would not be cost effective to do so. All material gains and losses are allocated to FEP.

(END OF CERTIFICATION)



**BlueCross BlueShield
Association**

**An Association of Independent
Blue Cross and Blue Shield Plans**

**2003
ANNUAL
ACCOUNTING
STATEMENT**

CERTIFICATION OF ANNUAL ACCOUNTING STATEMENT

This is to certify that I have reviewed this accounting statement and to the best of my knowledge and belief: *

1. The statement was prepared in conformity with guidelines issued by the Office of Personnel Management and fairly presents the financial results of contract year 2003 in conformity with those guidelines.
2. The costs included in the statement are actual, allowable, allocable and reasonable in accordance with the terms of the contract and the cost principles of the Federal Employees Health Benefits Acquisition Regulation and the Federal Acquisition Regulation.
3. Income, rebates, allowances, refunds, and other credits made or owed in accordance with the terms of the contract and applicable cost principles have been included in the statement.
4. The letter of credit account was managed in accordance with OPM guidelines.
5. The statement includes any adjustments for audit findings that were agreed to be settled through adjustments to the Special Reserve.

CARRIER NAME: BLUE CROSS BLUE SHIELD SERVICE BENEFIT PLAN

Scott P. Serota

Name of the Chief Executive Officer

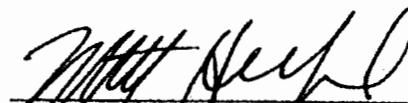


Signature of the Chief Executive Officer

4-29-04
Date Signed

Mitchell Helfand

Executive Director of Finance



Signature of the Executive Director of Finance

4/27/04
Date Signed

* This certification is subject to the following qualifications:

1. **Contract Provisions:** The annual accounting statement is submitted in accordance with the terms of Contract No. CS1039, as amended and effective for 2003.
2. **Supporting Plan Certifications:** This annual accounting statement reflects the amounts charged to the contract by the Blue Cross and Blue Shield Plans that are parties to this contract ("Participating Plans") and the pharmacy benefits providers. The FEP Director's Office has obtained certifications from the Participating Plans and the pharmacy benefit providers with respect to the amounts that they have charged to the contract. Exception items brought to our attention from Plan certifications are included in this qualification section of the Certificate submitted to OPM.
3. This Certificate does not apply to the following costs, income, rebates, allowances, refunds or other credits:
 - a. **OPM Audit Findings:** Amounts that have been questioned in draft or final OPM audit reports or final decisions for years prior to 2003, amounts in years following those covered by the audit reports, that were not resolved as of December 31, 2003, and including similar amounts at other Plans for which the FEP Director's Office has requested and received waivers.
 - b. **Independent Public Accountant's Reports:** Amounts may be affected by issues as a result of the Plans' Independent Public Accountant's performance of procedures in accordance with the OPM Carrier Audit Guide and BCBS Service Benefit Plan Workplan that were not resolved as of December 31, 2003.
 - c. **Control and Performance Reviews:** Amounts that have been questioned in Control and Performance Reviews (CPR) of participating Plans, pharmacy benefit managers, and providers that were not resolved as of December 31, 2003.
 - d. **Letter of Credit Account:** Amounts that may be affected by issues concerning certain Plans and the BCBS Association's compliance with OPM guidelines relating to management of the Letter of Credit Account. This may result in further adjustments to the Program.
 - e. **Sales Leaseback Transactions:** The Plans listed below have completed transactions that involved the sale and leaseback of buildings. The Plans' accounting policy for FEP is to amortize the gains on the sale portion of the transactions as reductions of rent expense. The gain reduces the rent charged to FEP down to the amount the Plans would have charged if they

had retained title. Following complete disposition of the property, the remaining unamortized gain, if any, is credited to the FEHBP.

CareFirst Blue Cross and Blue Shield
Blue Cross and Blue Shield of Massachusetts

f. **Highmark, Inc.:**

- Highmark Blue Shield has identified a deficiency in its processing of dental claims relative to speculative coordination of benefit (COB) processes. The Plan is researching this matter to determine the corrective action to be taken.
- Included within the Annual 2003 Cost Submission Report are Agency Service Fees in the amount of \$680,912. Highmark Blue Shield has not audited these charges and, therefore, cannot independently certify to the accuracy of these charges. Highmark Blue Shield relies upon the certifications of the Blue Cross Plans that incur the costs reflected in the Agency Service Fees. Any differences are corrected with a Prior Period Adjustment in the following year.

g. **Blue Cross and Blue Shield of Illinois:**

The Plan's review of issues related to the implementation of the Surrogate Discount Methodology (hospital settlements), Special Plan Invoicing, and member rebate checks is now complete. In the course of the review, the Plan identified several items regarding the effect of the Average Discount Percentage upon Letter of Credit Account draws and quarterly settlements. The Plan is in the final evaluation phase and will provide a complete report and any required adjustments to the FEP Director's Office once all evaluations are complete.

h. **Blue Cross and Blue Shield of Illinois**

Blue Cross and Blue Shield of Texas

Blue Cross and Blue Shield of New Mexico:

The Plans exited the Medicare lines of business in 1998 and 1999. The Plans are in discussions with the Center for Medicare Services based on final OIG pension audits/reviews to determine the credit payable to Medicare for any deemed excess pension assets at the points the Plans terminated the Medicare pension segment. The ultimate resolution of this issue could have an impact on the apportionment of underlying pension actuarial values and costs among the identified Medicare segments and other/non-segments. At this point in time, the overall CAS valuations and costs for the pension plans spanning back into the last settled FEP audit periods and forward into the current filing period do not appear to need adjustment. The Plans will make any appropriate FEP prior period adjustments related to FEP Pensions, if necessary, when all outstanding audits are finalized.

i. **Premera Blue Cross:**

- Gains and Losses on Disposition of Property: The Plan does not identify gains and losses on disposition of fixed assets and allocate them to FEP, when these amounts are immaterial, since it would not be cost effective to do so. All material gains and losses are allocated to FEP.

(END OF CERTIFICATION)



**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans

**2002
ANNUAL
ACCOUNTING
STATEMENT**

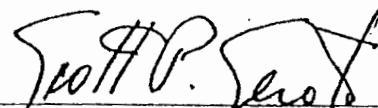
CERTIFICATION OF ANNUAL ACCOUNTING STATEMENT

This is to certify that I have reviewed this accounting statement and to the best of my knowledge and belief: *

1. The statement was prepared in conformity with guidelines issued by the Office of Personnel Management and fairly presents the financial results of contract year 2002 in conformity with those guidelines.
2. The costs included in the statement are actual, allowable, allocable and reasonable in accordance with the terms of the contract and the cost principles of the Federal Employees Health Benefits Acquisition Regulation and the Federal Acquisition Regulation.
3. Income, rebates, allowances, refunds, and other credits made or owed in accordance with the terms of the contract and applicable cost principles have been included in the statement.
4. The letter of credit account was managed in accordance with OPM guidelines.
5. The statement includes any adjustments for audit findings that were agreed to be settled through adjustments to the Special Reserve.

Scott P. Serota

Name of the Chief Executive Officer



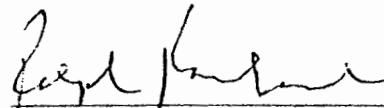
Signature of the Chief Executive Officer

4-22-03

Date Signed

Ralph D. Rambach

Name of the Financial Officer



Signature of the Financial Officer

4-22-03

Date Signed

* This certification is subject to the following qualifications:

2. **Supporting Plan Certifications:** This annual accounting statement reflects the amounts charged to the contract by the Blue Cross and Blue Shield Plans that are parties to this contract ("Participating Plans") and the pharmacy benefits providers. The FEP Director's Office has obtained certifications from the Participating Plans and the pharmacy benefit providers with respect to the amounts that they have charged to the contract. Exception items brought to our attention from Plan certifications are included in this qualification section of the Certificate submitted to OPM.
3. This Certificate does not apply to the following costs, income, rebates, allowances, refunds or other credits:
 - a. **OPM Audit Findings:** Amounts that have been questioned in draft or final OPM audit reports or final decisions for years prior to 2002, amounts in years following those covered by the audit reports, that were not resolved as of December 31, 2002, and including similar amounts at other Plans for which the FEP Director's Office has requested and received waivers.
 - b. **Independent Public Accountant's Reports:** Amounts may be affected by issues as a result of the Plans' Independent Public Accountant's performance of procedures in accordance with the OPM Carrier Audit Guide and BCBS Service Benefit Plan Workplan that were not resolved as of December 31, 2002.
 - c. **Control and Performance Reviews:** Amounts that have been questioned in Control and Performance Reviews (CPR) that were not resolved as of December 31, 2002.
 - d. **Letter of Credit Account:** Amounts that may be affected by issues concerning certain Plans and the BCBS Association's compliance with OPM guidelines relating to management of the Letter of Credit Account. This may result in further adjustments to the Program.
 - e. **Group Hospitalization and Medical Services, Inc. - D.C.:** In December 1998, the Plan completed a sale/leaseback transaction of a facility at 550 12th street, S.W., Washington, D.C. 20065. The building included two towers consisting of approximately 527,000 square feet of space for renovations. Currently, the Plan is leasing back the north tower consisting of approximately 273,000 square feet of office space. Consistent with their understanding of the regulations, it will continue to

charge only the cost of constructive ownership to the FEP program. It is the Plan's understanding that the FEP Director's Office and the Office of Personnel Management have been involved in discussions that affect the accounting treatment of a sale/leaseback transaction. If the ultimate conclusion of discussions on this issue impacts the treatment of costs, appropriate adjustments will be made.

f. **Highmark, Inc.:**

- Some processing deficiencies impacting claims have been identified and have been or are being researched. To the extent possible, manual workarounds have been implemented to minimize the risks associated with the deficiencies. These issues may impact some payments made and refunds due FEP.
- Included within the Annual 2002 Cost Submission Report are Agency Service Fees in the amount of \$604,349. These charges have not been audited by Highmark, and therefore, Highmark cannot represent to the accuracy of these charges. Independence Blue Cross has certified to Highmark as to the accuracy/allowability of their costs to the FEP contract relative to CY 2002, but has indicated that their December 2002 costs are estimated. Their costs represent \$160,963 of the \$604,349 Agency Service Charges reported. As of March 7, 2003, Capital Blue Cross and Blue Cross of Northeastern Pennsylvania have provided CY 2002 cost figures to Highmark, but not a certification letter. Their costs are \$298,388 and \$144,998, respectively, of the \$604,349 Agency Service Charges reported.

g. **Blue Cross and Blue Shield of Illinois:**

- In October 2001, the FEP Director's Office was notified of an error in the calculations of the Average Discount Percentage ("ADP") amount due the Federal Employee Program (FEP) during a four-month period spanning December 18, 2000 through April 23, 2001. Pending a complete investigation of this system error, the Plan transferred \$57 million to FEP (which includes \$55 million plus \$2 million estimated lost investment income). On February 28, 2002, the Plan provided the Director's Office with a reconciliation of amounts owed to the Program as a result of this error. That reconciliation showed that, prior to the application of the \$57 million that the Plan previously paid, \$42,093,254 was owed to the FEP Program. In a follow-up letter dated December 13, 2002, The Plan amended the settlement amount. The revised settlement amount due the FEP Program is \$43,968,831.48. This amount includes lost investment income. Settlement amount data is currently being audited by the Director's Office. Upon completion of the audit, the Plan will request return of the \$13,031,169 balance remaining from the \$57 million payment to the FEP Program.

- In the course of reviewing the ADP process, several related issues arose regarding the effect of ADP's on LOCA draws and the quarterly settlements. Evaluation data is still in the process of being finalized. A description of these related issues was provided to the Director's Office on December 13, 2002 and a final report will be provided once all data has been reconciled.
- Differences were noted due to processing errors identified during the reconciliation of \$2,000,000 for pay code 40. The \$2,000,000 error included in fiscal year 2001 summary pay code totals was corrected in 2002.
- The Plan is currently conducting a review of the segmented valuation of their combined pension plan. A prior period adjustment will be made if necessary.

h. **Blue Cross and Blue Shield of Texas:**

- The Plan is currently conducting a review of the segmented valuation of their combined pension plan. A prior period adjustment will be made if necessary.

i. **Blue Cross and Blue Shield of New Mexico:**

- The Plan is currently conducting a review of the segmented valuation of their combined pension plan. A prior period adjustment will be made if necessary.

j. **Premera Blue Cross:**

- Gains and Losses on Disposition of Property: The Plan does not identify gains and losses on disposition of fixed assets and allocate them to FEP, when these amounts are immaterial, since it would not be cost effective to do so. All material gains and losses are allocated to FEP.

k. **Wellmark Blue Cross and Blue Shield of Iowa**

- The reported remittance summaries accurately reflect payments based upon Federal Employee Program projected dates as compared to the Plan's records which reflect the timing of actual payments. The amounts do not materially differ.

l. **Independence Blue Cross:**

- Due to the earlier deadline for filing the 2002 FEP cost submission and certification, we estimated our cost for December 2002, as cost allocations have not been finalized. Once the allocation process is concluded, we will amend the cost submission information and forward the revised schedules.

(END OF CERTIFICATION)



**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans

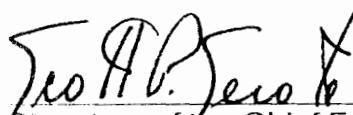
**2001
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ACCOUNTING
STATEMENT**

CERTIFICATION OF ANNUAL ACCOUNTING STATEMENT

This is to certify that I have reviewed this accounting statement and to the best of my knowledge and belief: *

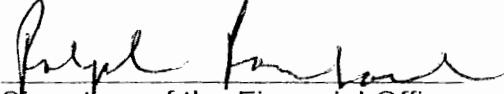
1. The statement was prepared in conformity with guidelines issued by the Office of Personnel Management and fairly presents the financial results of contract year 2001 in conformity with those guidelines;
2. The costs included in the statement are actual, allowable, allocable, and reasonable in accordance with the cost principles of the Federal Employees Health Benefits Acquisition Regulation and the Federal Acquisition Regulation;
3. Income, rebates, allowances, refunds, and other credits made or owed in accordance with the terms of the contract and applicable cost principles have been included in the statement;
4. The letter of credit account was managed in accordance with OPM guidelines.
5. The statement includes any adjustments for audit findings that were agreed to be settled through adjustments to the Special Reserve.

Scott P. Serota
Name of the Chief Executive Officer


Signature of the Chief Executive Officer

8-21-02
Date Signed

Ralph D. Rambach
Name of the Financial Officer


Signature of the Financial Officer

8-21-02
Date Signed

* This certification is subject to the following qualifications:

1. **Contract Provisions:** The annual accounting statement is submitted in accordance with the terms of Contract No. 1039, as amended and effective for 2001.
2. **Supporting Plan Certifications:** This annual accounting statement reflects the amounts charged to the contract by the Blue Cross and Blue Shield Plans that are parties to this contract ("Participating Plans") and the pharmacy benefits providers. The FEP Director's Office has obtained certifications from the Participating Plans and the pharmacy benefit providers with respect to the amounts that they have charged to the contract. Exception items brought to our attention from Plan certifications are included in this qualification section of the Certificate submitted to OPM.
3. This Certificate does not apply to the following costs, income, rebates, allowances, refunds or other credits:
 - a. **OPM Audit Findings:** Amounts that have been questioned in draft or final OPM audit reports or final decisions for years prior to 2001, amounts in years following those covered by the audit reports, that were not resolved as of December 31, 2001, and including similar amounts at other Plans for which the FEP Director's Office has requested and received waivers.
 - b. **Independent Public Accountant's Reports:** Amounts may be affected by issues as a result of the Plans' Independent Public Accountant's performance of procedures in accordance with the OPM Carrier Audit Guide and BCBS Service Benefit Plan Workplan that were not resolved as of December 31, 2001.
 - c. **Control and Performance Reviews:** Amounts that have been questioned in Control and Performance Reviews (CPR) that were not resolved as of December 31, 2001.
 - d. **Letter of Credit Account:** Amounts that may be affected by issues concerning certain Plans' compliance with OPM guidelines relating to management of the Letter of Credit Account. This may result in further adjustments to the Program.
 - e. **Group Hospitalization and Medical Services, Inc. – D.C.:**
 - In December 1998, the Plan completed a sale/leaseback transaction of a facility at 550 12th street, S.W., Washington, D.C. 20065. The building included two towers consisting of approximately 254,000 square feet of space for renovations. Currently, the Plan is leasing back the north tower consisting of approximately 273,000 square feet of office space. Consistent with their understanding of the regulations, the Plan will continue to charge only the cost of constructive ownership to the FEP.

program. It is the Plan's understanding that the FEP Director's Office and the Office of Personnel Management have been involved in discussions that affect the accounting treatment of a sale/leaseback transaction. If the ultimate conclusion of discussions on this issue impact the treatment of costs, appropriate adjustments will be made.

- The Plan internally identified a suspected incident of fraud totaling \$81,305, which impacted health benefit costs charged by GHMSI to the FEP Local contract (not the FEP Operations Center). The incident has been communicated to the OIG. The Plan, the FEP Director's Office and the OIG are in the process of resolving the issues impacting this incident. Appropriate steps have been taken to strengthen internal controls.

f. Highmark, Inc.:

- Some processing deficiencies impacting claims have been or are being researched. To the extent possible, manual workarounds have been implemented to minimize the risks associated with the deficiencies. These issues may impact some payments made and refunds due FEP.
- Included within the Annual 2001 Cost Submission Report are Agency Service Fees in the amount of \$557,623. These amounts have not been audited by Highmark, and therefore, Highmark cannot represent to the accuracy of these charges. Capital Blue Cross has certified to Highmark as to the accuracy and allowability of their fees to the FEP contract. As of March 30, 2002, Independence Blue Cross and Blue Cross of Northeastern Pennsylvania have not supplied a certification letter to Highmark relative to Annual 2001 year. Their costs represent \$253,032 of the \$557,623 Agency Service Fees reported.

g. **Blue Cross of Northeastern Pennsylvania:** Pension costs for 2001 of \$51,779 included in the Report were calculated in accordance with generally accepted accounting principles (GAAP) which were lower than our contribution for funding purposes. The remaining costs included in the Report are allowable in accordance with the terms of the FEP contract and with the cost principles of the Federal Employees Health Benefits Acquisition Regulation and the Federal Acquisition Regulation.

h. Blue Cross and Blue Shield of Illinois:

- In October 2001, the FEP Director's Office was notified of an error in the calculations of the Average Discount Percentage ("ADP") amount due the Federal Employee Program (FEP) during a four-month period spanning December 18, 2000 through April 23, 2001. Pending a complete investigation of this system error, the Plan transferred \$57 million to FEP (which includes \$55 million plus \$2 million estimated lost investment income). On February 28,

2002, the Plan provided the Director's Office with a reconciliation of amounts owed to the Program as the result of this error. That reconciliation showed that, prior to the application of the \$57 million that the Plan previously paid, \$42,093,254 was owed to the FEP Program. In the course of their investigation, the Plan discovered some additional issues, which are continuing to be investigated. As a result, reimbursement to the Plan for the \$14,906,045 overpayment has not been made.

- The Plan is currently conducting an actuarial review of the segmented valuation of their combined pension plan. The work is nearing completion and once finalized, a prior period adjustment will be made if necessary.
- i. **Blue Cross and Blue Shield of Texas:** The Plan is currently conducting an actuarial review of the segmented valuation of their combined pension plan. The work is nearing completion and once finalized, a prior period adjustment will be made if necessary.
- i. **Blue Cross and Blue Shield of New Mexico:** The Plan is currently conducting an actuarial review of the segmented valuation of their combined pension plan. The work is nearing completion and once finalized, a prior period adjustment for FEP will be made if necessary.
- k. **Premera Blue Cross:**
 - Gains and Losses on Disposition of Property: The Plan does not identify gains and losses on disposition of fixed assets and allocate them to FEP, when these amounts are immaterial, since it would not be cost effective to do so. All material gains and losses are allocated to FEP.
 - The Plan is in compliance with all Reimbursement Procedures #1 through #10 issued by the FEP Director's Office where applicable. The Plan has obtained a waiver from the OPM/OIG dated April 4,2000 in accordance with FEHBAR 1632771 (d) and 1652.232-72 (b) as they relate to the Plans cash management procedures for the FEHBP Letter of Credit Account.
- i. **Wellmark Blue Cross and Blue Shield of Iowa:** The reported remittance summaries accurately reflect payments based upon Federal Employee Program projected dates as compared to the Plans' records which reflect the timing of actual payments. The amounts do not materially differ.
- m. **Blue Cross Blue Shield Association - FEP:** The 2001 Annual Accounting Statement includes an accrual for administrative expenses that represent administration costs to process future claims. It is the first year of reporting required by OPM for the FEP. This estimate may require an adjustment in future reporting periods when historical experience is known.

(END OF CERTIFICATION)



**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans

**2000
ANNUAL
ACCOUNTING
STATEMENT**



**BlueCross BlueShield
Association**

An Association of
Independent Blue Cross
and Blue Shield Plans

1310 G Street, N.W.
Washington, D.C. 20005
Telephone 202.626.4780
Fax 202.626.4833

May 10, 2001

Ms. Abby L. Block
Assistant Director for Insurance Programs
U. S. Office of Personnel Management
1900 E Street, N. W., Room 2300
Washington, D. C. 20415

Dear Ms. Block:

Enclosed are **revised** copies of the 2000 Annual Accounting Statement. We discovered an allocation change for the high option in two areas; the State Statutory Reserves reported on line 3D and the Refund Received from Contingency Reserve reported on line 4C. The revised Annual Accounting Statement and Schedule 2 – Status of Reserves have been changed to reflect the correct amounts. This package includes the signatures of both the Chief Executive Officer and the Chief Financial Officer.

Based on discussions with our Financial Management Division contacts at OPM, a revised copy will be provided to them.

Releasing the above mentioned material under the provisions of Section 552 (B)(4) of the Freedom of Information Act (FOIA) would reveal trade secrets and privileged commercial financial information. We request that OPM notify us if anyone seeks to obtain this information under FOIA.

Should you have any questions, please contact me at 202.942.1108.

Sincerely,

A handwritten signature in black ink that appears to read "Deborah T. Moore".

Deborah T. Moore, Director
Program Integrity – Finance

cc: Jena Bell Estes
Denise Burrows

Enclosures

CERTIFICATION OF ANNUAL ACCOUNTING STATEMENT

This is to certify that I have reviewed this accounting statement and to the best of my knowledge and belief:*

1. The statement was prepared in conformity with guidelines issued by the Office of Personnel Management and fairly presents the financial results of contract year 2000 in conformity with those guidelines;
2. The costs included in the statement are allowable and allocable in accordance with the cost principles of the Federal Employees Health Benefits Acquisition Regulation and the Federal Acquisition Regulation;
3. Income, rebates, allowances, refunds, and other credits made or owed in accordance with the terms of the contract and applicable cost principles have been included in the statement;
4. The letter of credit account was managed in accordance with OPM guidelines.
5. The statement includes any adjustments for audit findings that were agreed to be settled through adjustments to the Special Reserve.

Scott P. Serota
Name of the Chief Executive Officer


Signature of the Chief Executive Officer

May 4, 2001
Date Signed

Ralph D. Rambach
Name of the Financial Officer


Signature of the Financial Officer

Date Signed

* This certification is subject to the following qualifications:

1. **Contract Provisions:** The annual account statement is submitted in accordance with the terms of Contract No. 1039, as amended and effective for 2000.
2. **Supporting Plan Certifications:** This annual accounting statement reflects the amounts charged to the contract by the Blue Cross and Blue Shield Plans that are parties to this contract ("Participating Plans") and the pharmacy benefits providers. The Association has obtained certifications from the Participating Plans and the pharmacy benefits providers with respect to the amounts that they have charged to the contract. Those certifications will be maintained on file at the Office of the Director of the Federal Employee Program for inspection by the Office of Personnel Management. Exception items brought to our attention from Plan certifications are included in the qualification section of the Certificate submitted to OPM. This Certificate does not apply to the following costs, income, rebates, allowances, refunds or other credits:
3. This Certificate does not apply to the following costs, income, rebates, allowances, refunds or other credits:
 - a. **OPM Audit Findings:** Amounts that have been questioned in draft or final OPM audit reports or final decisions for years prior to 2000, amounts in years following those covered by the audit reports, that were not resolved as of December 31, 2000, and including similar amounts at other Plans for which the FEP Director's Office has requested and received waivers.
 - b. **Control and Performance Reviews:** Amounts that have been questioned in Control and Performance Reviews (CPR) that were not resolved as of December 31, 2000.
 - c. **Independent Public Accountant's Reports:** Amounts that may be affected by issues as a result of the Plans' Independent Public Accountant's performance of procedures in accordance with the OPM Carrier Audit Guide and BCBS Service Benefit Plan Workplan that were not resolved as of December 31, 2000.
 - d. **Letter of Credit Account:** Amounts that may be affected by issues concerning certain Plans' compliance with OPM guidelines relating to management of the Letter of Credit Account. This may result in further adjustments to the Program.
 - e. **Group Hospitalization and Medical Services, Inc.:** A sale/lease-back transaction was completed in December 1998 on the 550 12th Street, SW facility to lease back the entire building. The plan has been charging and will continue to charge only the cost of

constructive ownership to the FEP. Discussions are ongoing between the FEP Director's Office and OPM regarding the treatment of sale/lease-back arrangements. The Plan will make appropriate adjustments if at the conclusion of the FEP Director's Office and OPM's discussions the parties agree to a different accounting treatment of the sale/lease-back transaction.

Group Hospitalization and Medical Services, Inc. The Plan internally identified a suspected incident of fraud by an employee, which impacted costs allocated to the FEP Operations Center. The amounts identified were administrative costs, which were excluded from the certified cost submission report. The employee was believed to have arranged for vendor payments to be fraudulently forwarded to a personal account of the employee's spouse. The employee in question has been terminated and the Plan has referred the matter to local and federal law enforcement officials for prosecution. The bank account in question has been frozen pending the outcome of the criminal investigation(s). The Plan has also amended its internal controls to prevent a reoccurrence.

f. **Highmark, Inc.:**

- **Claims Payments:** The Plan is in the process of researching identified discrepancies of claims, payments, and subsequent cash drawdowns. Where deemed necessary, corrective action will be taken by the Plan to make appropriate adjustments to the Plan's drawdown.
- **Claims Processing Deficiency:** The Plan has identified some deficiencies in processing claims. Manual processes have been implemented to minimize the associated risks. Issues being researched may impact some payments made and refunds due FEP. These refunds or payments include Other Party Liability processes, the pricing of certain ancillary facilities, delays in finalizing claims, and certain identified duplicate payments.
- **Agency Service Charges:** The Plan has included \$585,375 of Agency Costs in their Cost Submission Report for calendar year 2000. Highmark has not audited these costs, and therefore, Highmark cannot certify to the accuracy of these charges. Capital Blue Cross and Independence Blue Cross have certified to Highmark as to the accuracy and allowability of their costs to the FEP contract. Blue Cross of Northeastern Pennsylvania has qualified their certification to indicate that their costs charged to the Highmark Plan include pension costs which are calculated

in accordance with generally accepted accounting principles (GAAP) which were lower than their actual contribution.

- g. **Blue Cross of Northeastern Pennsylvania:** Pension costs for 2000 of \$57,181 included in the Report were calculated in accordance with Generally Accepted Accounting Principles (GAAP) which were lower than their contribution for funding purposes. The remaining costs included in the Report are allowable in accordance with the terms of the FEP contract and with the cost principles of the Federal Employees Health Benefits Acquisition Regulation and the Federal Acquisition Regulation.
- h. **Premera Blue Cross:**
 - **Gains and Losses on Disposition of Property:** The Plan does not identify gains and losses on disposition of fixed assets and allocate them to FEP, when these amounts are immaterial, since it would not be cost effective to do so. All material gains and losses are allocated to FEP.
 - **Letter of Credit:** The Plan is in compliance with all Reimbursement Procedures #1 through #10 issued by the FEP Director's Office where applicable. The Plan has obtained a waiver from the OPM/OIG dated April 4, 2000 in accordance with FEHBAR 1632.771(d) and 1652.232-72 (b) as they relate to the Plans cash management procedures for the FEHBP Letter of Credit Account.
- i. **Blue Cross and Blue Shield of Texas, Inc. and Blue Cross and Blue Shield of Illinois:** The FEP pension segment cost adjustment has not been finalized as of this date. An adjustment will be made if necessary.
- j. **Wellmark Blue Cross and Blue Shield of Iowa:** The reported remittance summaries accurately reflect payments based upon Federal Employee Program projected dates as compared to the Plans' records which reflect the timing of actual payments. The amounts do not materially differ.
- k. **Blue Cross Blue Shield of Michigan:** As described in detailed letters to the FEP Director's Office dated November 17, 2000 and April 11, 2001, BCBSM has become aware of certain possible errors in the hospital settlement process relating to the 1996-2000 period. These errors were identified by the Plan and the FEP Director's Office and funds due to FEP were quantified and returned.

(END OF CERTIFICATION)